Golden Nest Eggs for Executives Grow Even as Workers' Pensions Are Cut

United Airlines Three months before United Air Lines filed for bankruptcy in 2002, the company placed $4.5 million in a special, bankruptcy-protected trust for CEO Glen Tilton. The bankruptcy resulted in hundreds of millions of dollars in worker concessions. Last year, the company began moving to terminate all of its worker pension plans, a move which the PBGC – with a $23 billion deficit – initially opposed. In the meantime, while the top eight executives publicly took a 15% salary cut on January 1, 2005, the CEO had already collected $3 million from his special trusts. In late April 2005, United and the PBGC reached a deal to allow the company to terminate all of its workers' defined benefit plans – some $9.8 billion in unfunded liabilities – dumping the plans onto the PBGC, which is expected to pick up about $6.6 billion of those liabilities. The deal requires bankruptcy court approval, and unions like the Machinists and Flight Attendants are opposing the deal, claiming other solutions to United's financial mess, including through good faith collective bargaining, are possible. Workers will suffer under the United-PBGC deal. For instance, flight attendants stand to lose one-third of their pension benefits if the PBGC takes over their plan.

Source: Janice Revell et al., "CEO Pensions: The Latest Way to Hide Millions," *Fortune*, April 28, 2003.

US Airways In March 2002, Stephen Wolf took a lump sum pension payout of $15 million, including amounts for 24 years of service that he never actually performed. Six months later, the company filed for Chapter 11 bankruptcy. A pilots' pension plan was then terminated, saddling the federally-chartered PBGC with $2.2 billion in liabilities.

Source: Janice Revell et al., "CEO Pensions: The Latest Way to Hide Millions," *Fortune*, April 28, 2003; John Crawley, "US Airways in Tentative Giveback Deal with Pilots" (Update 1), *Reuters*, October 1, 2004.

Delta Air Lines In November 2002, Delta announced that it would phase out its traditional defined benefit pension plan for 56,000 employees and replace it with a cash balance plan. Experts say the switch could reduce older workers' pensions by as much as 50 percent. That same year, the company set up special retirement trusts for 33 executives. And even as cost-cutting measures took place, the company credited Delta CEO Leo Mullin's pension with 22 years of service which he never actually performed, boosting his annual payout at age 65 to $1 million per year for the rest of his life.

Source: Janice Revell et al., "CEO Pensions: The Latest Way to Hide Millions," Fortune, April 28, 2003; Theo Francis and Ellen E. Schultz, "Employers Spare Execs from Pension-Cut Pain," *Wall Street Journal Online*, April 7, 2003.

American Airlines After American Airlines lost over a billion dollars in the first quarter of 2003, CEO Donald Carty pushed his employees to accept huge wage and benefit concessions. What he did not tell them at the time, however, was that he, along with six other executives, received huge retention bonuses and a $41 million pretax contribution to their executive pension trust fund. These new executive benefits were disclosed two days after the unions voted to accept the concessions. Carty later resigned following public outcry.

Source: Lisa Yoon, "Former CFO Now CEO at American Airlines," *CFO.com*, April 28, 2003.

LTV In November 1999, the steel company LTV Corp. established trusts for executive deferred-compensation and supplemental-pension payments. At the end of 2000, LTV filed for bankruptcy. Four months later, the company promised an executive that it would transfer assets in those trusts to a new one in the executive's name. Less than a year after this executive agreement was reached, the LTV workers' pension plan was dumped onto the PBGC, with many of the 82,000 covered workers seeing their earned benefits cut as a result.

Source: Theo Francis and Ellen E. Schultz, "Employers Spare Execs from Pension-Cut Pain," *Wall Street Journal Online*, April 7, 2003.

IBM In 1999, IBM converted its traditional defined benefit pension plan into a cash balance pension plan, resulting in dramatic cuts in the pension benefits of older workers. At the time, there was an $8.2 billion surplus in the pension fund. In 2001, two years after cutting older workers' pensions by half, the company contributed $288,000 to CEO Lou Gerstner's deferred compensation plan. In 2002, Gerstner retired with a pension of $1.1 million per year.

Source: "Corporate Books Hide Another Ticking Time Bomb: Deferred Compensation – Tab for Executive 'Top-Hat' Plans Rises Yearly, Usually Isn't Disclosed," *Wall Street Journal Europe*, October 11, 2002.

Rite Aid In 1996, Rite Aid created a supplemental pension for 26 executives. The very next year, the company reduced the ultimate benefit accruals for its rank-and-file workers by converting its traditional pension plan into a cash balance plan. By 2001, the cash balance plan had $65 million in liabilities, covering 18,000 workers. The executives' plan had $32 million in liabilities, covering just a few dozen individuals.

Source: Ellen E. Schultz, "While Executives See Their Pensions Grow, Regular Workers See Their Pensions Shrink," *Wall Street Journal*, June 20, 2001.